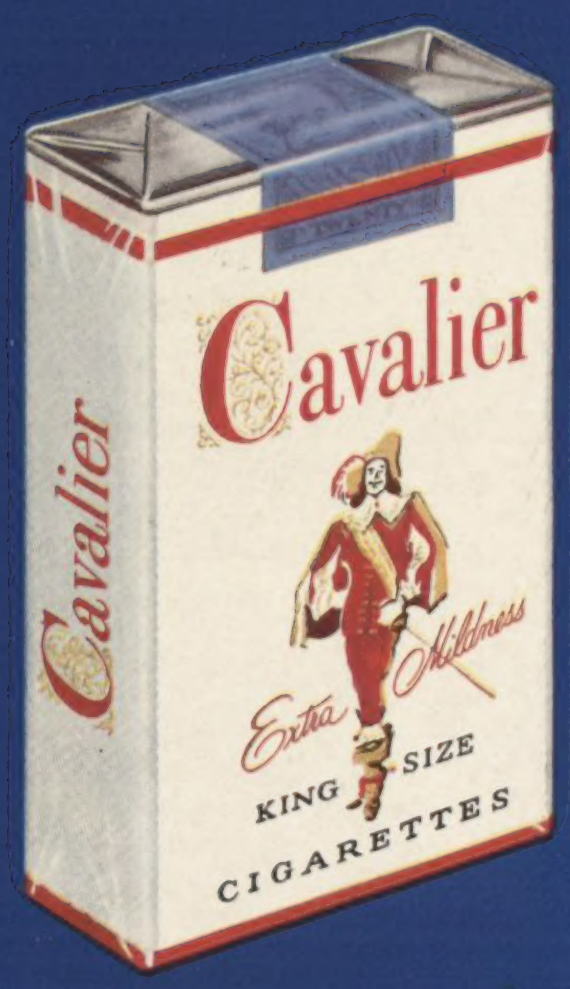
1954

ANNUAL REPORT



R. J. REYNOLDS TOBACCO COMPANY

WINSTON-SALEM, N. C.

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

annual report to the stockholders 1954

R. J. REYNOLDS TOBACCO COMPANY

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Financial Highlights

	1954	1953
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$814,273,776	$876,189,581
Net Earnings	44,826,793	34,172,044
Net Earnings as a percentage of Net Sales	5.51%	3.90%
Earnings per share on common stocks *before* taxes on income*	$ 10.04	$ 9.99
Taxes on income per share of common stocks*	5.85	6.87
Net Earnings per share on common stocks*	4.19	3.12
Dividends per share on common stocks	2.40	2.00
Dividends on Preferred Stock	2,894,413	2,934,000
Dividends on common stocks	23,731,853	19,756,235
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$617,635,877	$598,609,439
Current Assets	574,025,535	558,393,962
Current Liabilities	144,872,480	137,701,957
Net Current Assets–Working Capital	429,153,055	420,692,005
Real Estate, Machinery and Equipment–net	40,259,587	36,394,804
Funded Debt	120,000,000	125,000,000
Equity of holders of Preferred Stock	73,377,500	75,000,000
Equity of holders of common stocks	279,385,897	260,907,482

* Based on 10,000,000 shares.

R. J. REYNOLDS
TOBACCO COMPANY

WINSTON-SALEM, NORTH CAROLINA

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

TO THE STOCKHOLDERS:

The year's net earnings of $44,826,793, after provision made in the final quarter for an additional contingent tax reserve of $1,800,000 for prior years, were the largest in the Company's history. They exceeded the results of 1949, when the previous high was reached, by $4,372,632 and were $10,654,749 greater than 1953 net earnings.

Earnings per share on the 10,000,000 shares of common stocks also attained a new high of $4.19. This amount is computed after deduction of the additional contingent tax reserve, which is equivalent to 18 cents a share. In 1953 earnings on common stocks amounted to $3.12 a share and in 1949 to $3.75 a share.

The improvement in net earnings over those of 1953 was due primarily to the termination of the excess profits tax, which for 1953, the last year the tax was in effect, amounted to $12,021,220.

Earnings before Federal and state taxes on income reached the all-time high of $103,343,302.

Dividends

During the years 1947 through 1953, dividends paid on each share of the common stocks totaled $2.00 a year. This rate was increased in 1954 to $2.40, consisting of four quarterly dividends of 60 cents each.

Dividends paid on the common stocks and the Preferred Stock in 1954 amounted to $26,626,266, or 59.4% of net earnings.

Sales

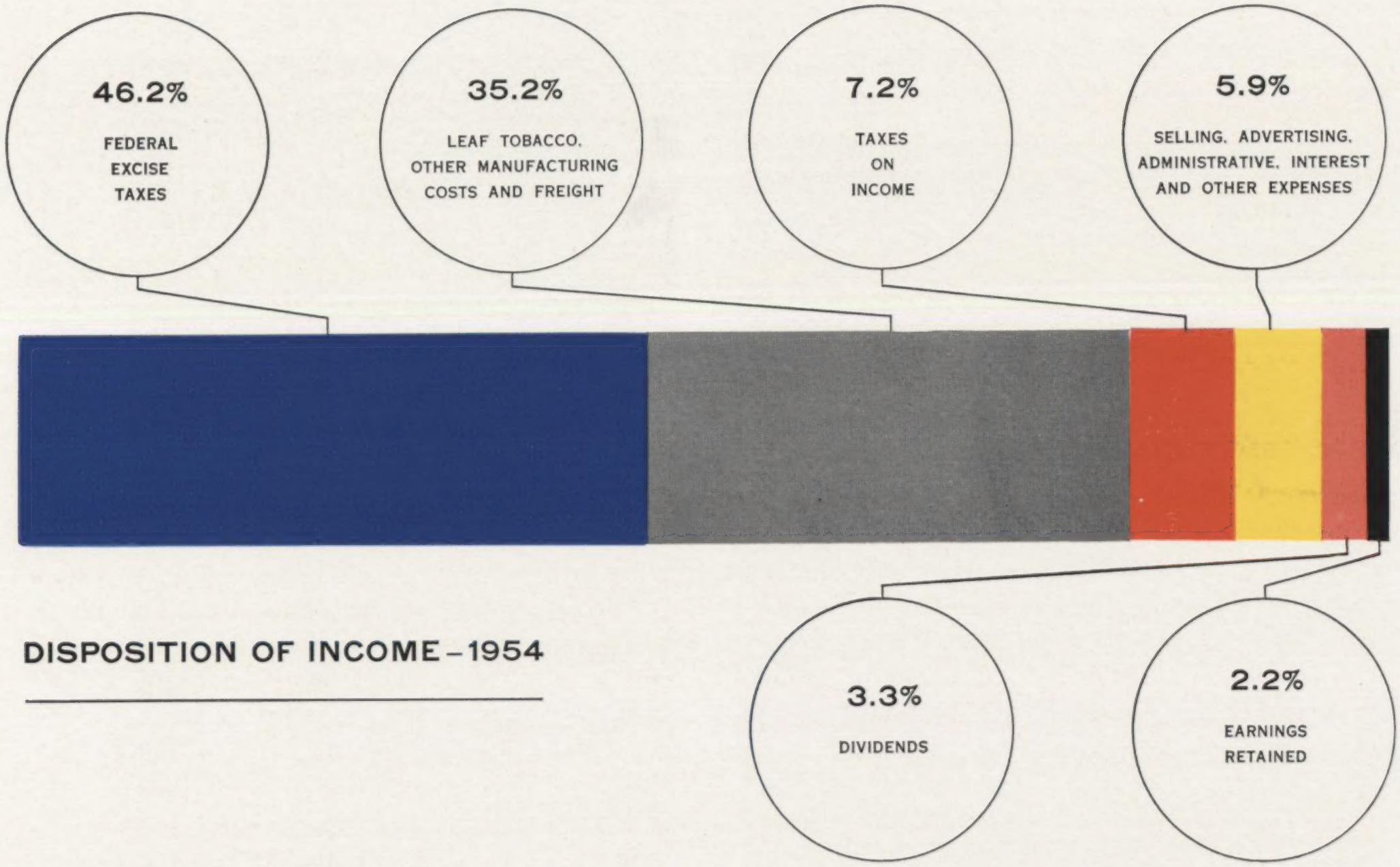
In 1954 sales amounted to $814,273,776 compared with $876,189,581 in the preceding year.

CAMEL remained by far the most popular cigarette on the market, although volume declined in 1954. CAVALIER King-Size Cigarettes attained a new high in sales and PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco continued to lead in their respective fields.

In the few months that WINSTON Filter-Tip Cigarettes have been on the market they have already become one of the leading filter-tip brands. This is a remarkable achievement, particularly since nationwide distribution was not completed until late in September.

WINSTONS were first introduced in the New

DISPOSITION OF INCOME – 1954



England area in March. Shortly thereafter they were offered in the New York metropolitan market and gradually the distribution was extended to the other parts of the country. The demand for WINSTONS was so great that it became necessary to increase production capacity. Because of the inability of machinery manufacturers to supply promptly our requirements of special equipment, the introductory period was somewhat longer than had been anticipated.

The increase in popularity of filter-tip cigarettes has been extraordinary. As recently as 1952 only about 1¼% of all cigarettes sold were of this type. In 1953 filter-tip cigarettes represented about 3¼% of the cigarette volume and in 1954 about 10%. With its WINSTON brand the Company is in position to have a large percentage of the expanding filter-tip cigarette business.

Leaf Tobacco

Requirements of the 1954 flue-cured tobacco crop were purchased at an average price which was less than in the previous year. This entire crop was sold at an average price below that of the 1953 crop. Marketing of the 1954 Burley tobacco crop was still under way at the end of the year but indications at that time were that the average price per pound for the Company's purchases out of this crop would also be less than for the 1953 crop. The volume of the 1954 Burley tobacco crop sold before the end of the year was substantially greater than was the case with crops of recent years.

Leaf tobacco inventories were greater at the end of 1954 than at the close of 1953. In large measure this was due to the heavy marketing before the year end of the 1954 Burley crop and additional leaf requirements for the new WINSTON brand. The increased inventories, coupled with the large income and excess profits tax payments in 1954, necessitated larger bank borrowings during the year.

Plant Additions and Improvements

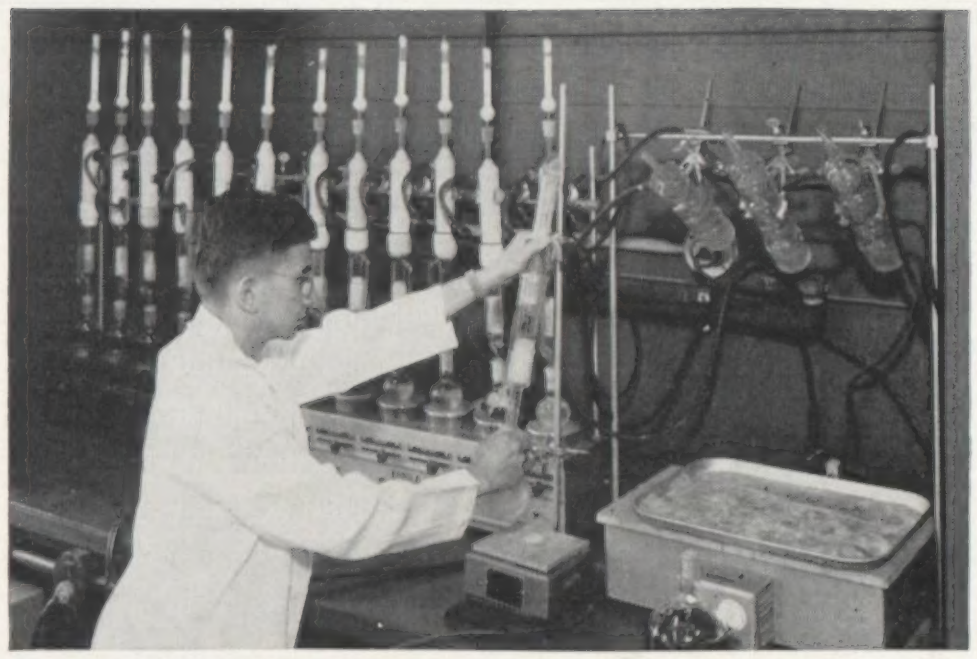
Considerable expenditures were made for new machinery for the manufacture of WINSTON Cigarettes and for a new leaf processing plant, located near Winston-Salem. These additions accounted for the larger share of $7,510,228 spent on plant

and equipment. Charges for depreciation and obsolescence for the year amounted to $3,411,950. At the end of the year, after making adjustment for disposals, the gross real estate, machinery and equipment account stood at $68,338,682.

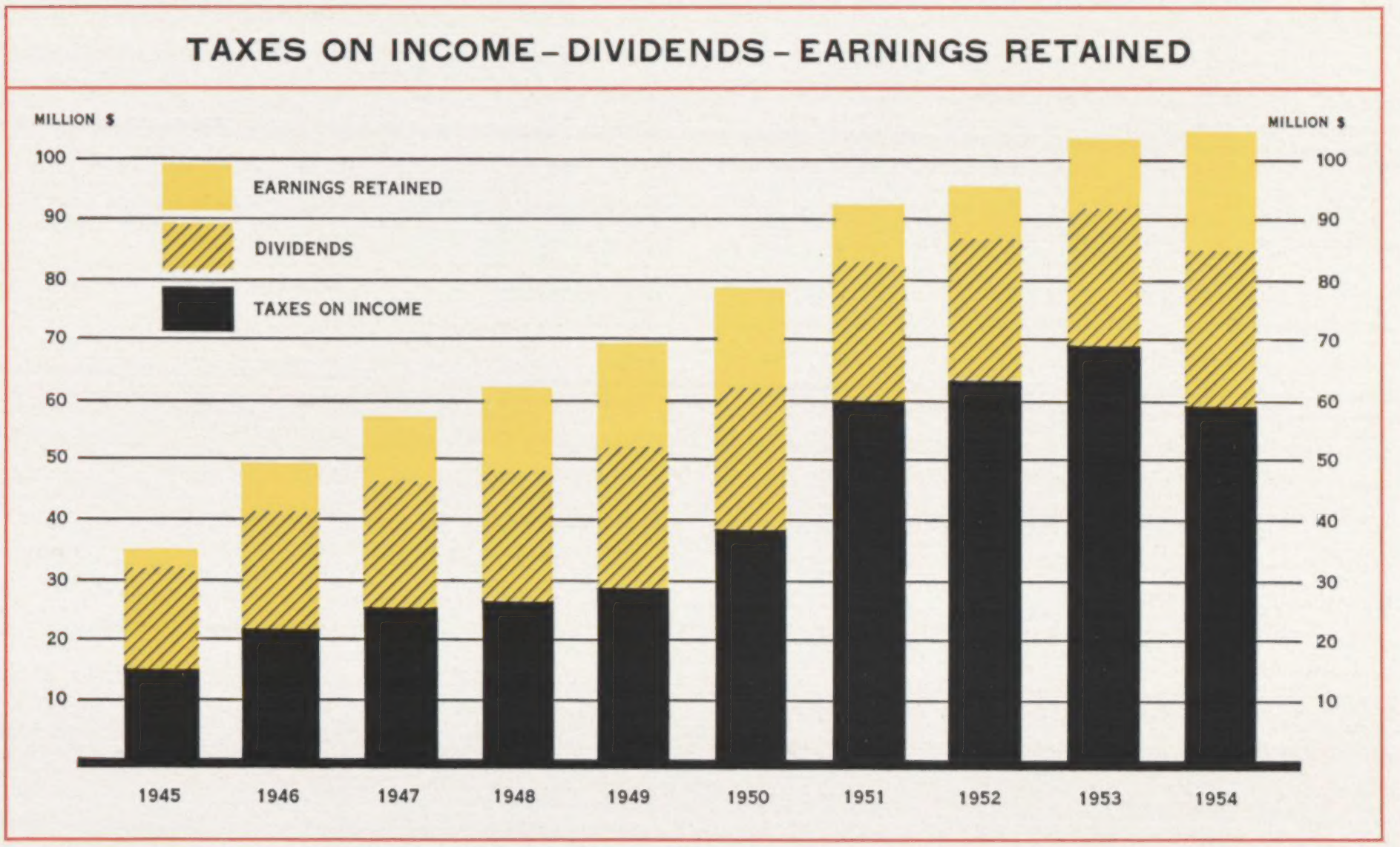
Additional Contingent Tax Reserve

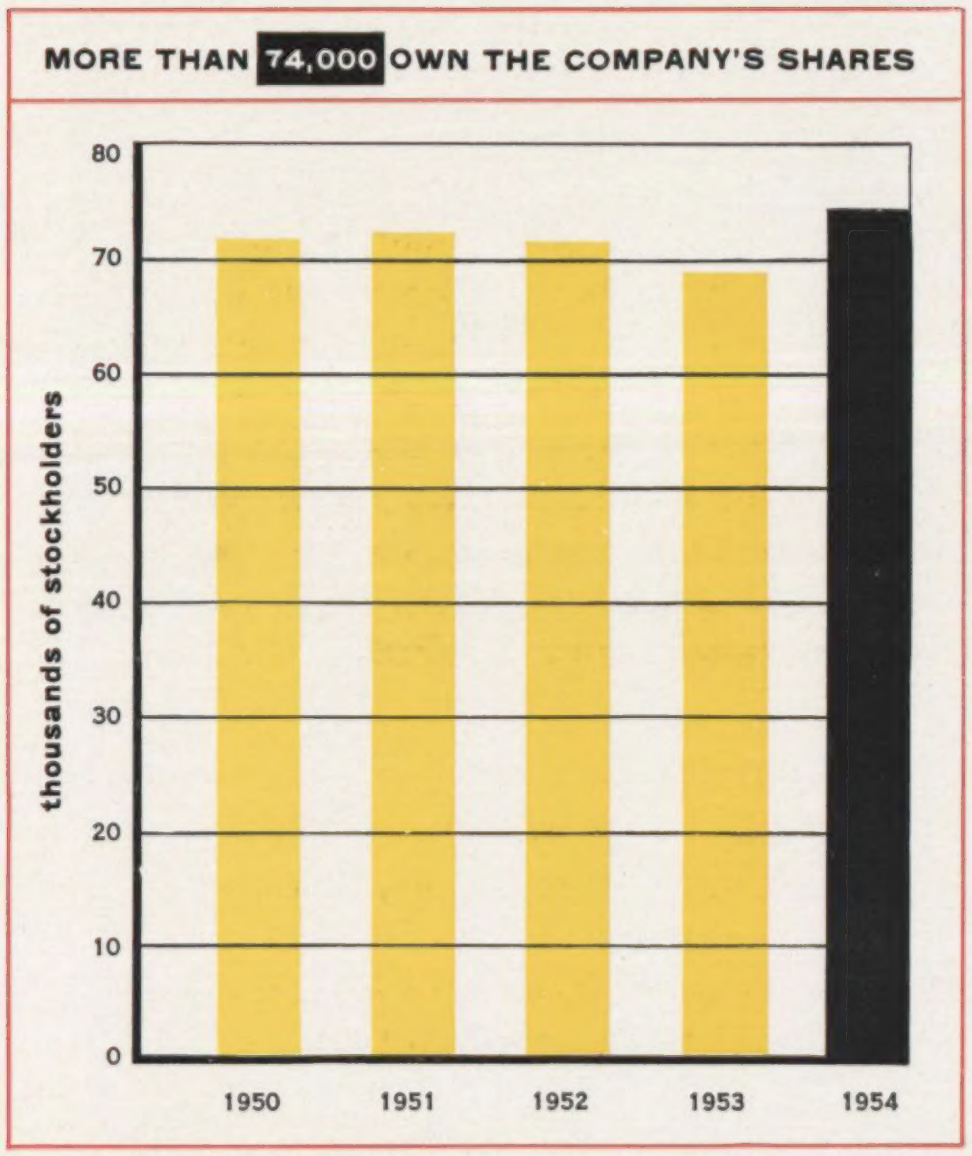
Since the amendment of Article XII of the Company's By-Laws in 1949, the Company, in filing its Federal income and excess profits tax returns, has deducted the amount paid pursuant to the By-Law. This was done for the years 1949 and 1950 in reliance upon the ruling of the Bureau of Internal Revenue issued in 1949. Late in 1951 the Bureau revoked its ruling but the Company has contested the matter and has continued to make such deduction for the years after 1950.

With respect to 1951 and subsequent years the Company charged to each year's operations, and set up as a reserve, an amount estimated to be equivalent to the additional Federal tax that would be payable should determination be made that the payments under the By-Law were not deductible. The total of the tax reserves for the years involved, plus a refund that the Company is entitled to receive in connection with Federal excess profits taxes paid for the years 1940 to 1943, inclusive, is estimated to be about $1,800,000 less than the total additional Federal taxes for the years 1949 to 1954, inclusive, that would be payable in the event of such determination. In order to provide for this contingent liability, which was referred to in previous annual reports, the tax reserve was increased by $1,800,000 in 1954.



Basic research continues in the Company's laboratories.





The question of the Company's liability for such additional Federal taxes was recently tried in the United States Tax Court but no decision has as yet been reached. Since 1951 and up to the trial, the Company had endeavored to make a satisfactory settlement of the matter.

Tobacco Industry Research Committee

The Company has joined with certain others in the industry, as well as associations representing leaf tobacco growers and warehouse operators, in sponsoring the Tobacco Industry Research Committee, whose purpose is to aid and assist research into tobacco use and health. In charge of the research activities for the Committee is the Scientific Advisory Board composed of distinguished and outstanding medical authorities and scientists. Through the Board an independent research program is being administered, with finances supplied by the Committee. The Board and those to whom the grants are made have complete freedom of action, thus insuring unbiased and unrestricted investigation.

Many eminent medical authorities have stated that claims made as to a possible causal relationship between smoking and lung cancer are lacking in any real proof. Very little is known as to the true cause or causes of any cancer, and it is to be hoped that the research financed by the Committee will aid medical science in discovering the cause.

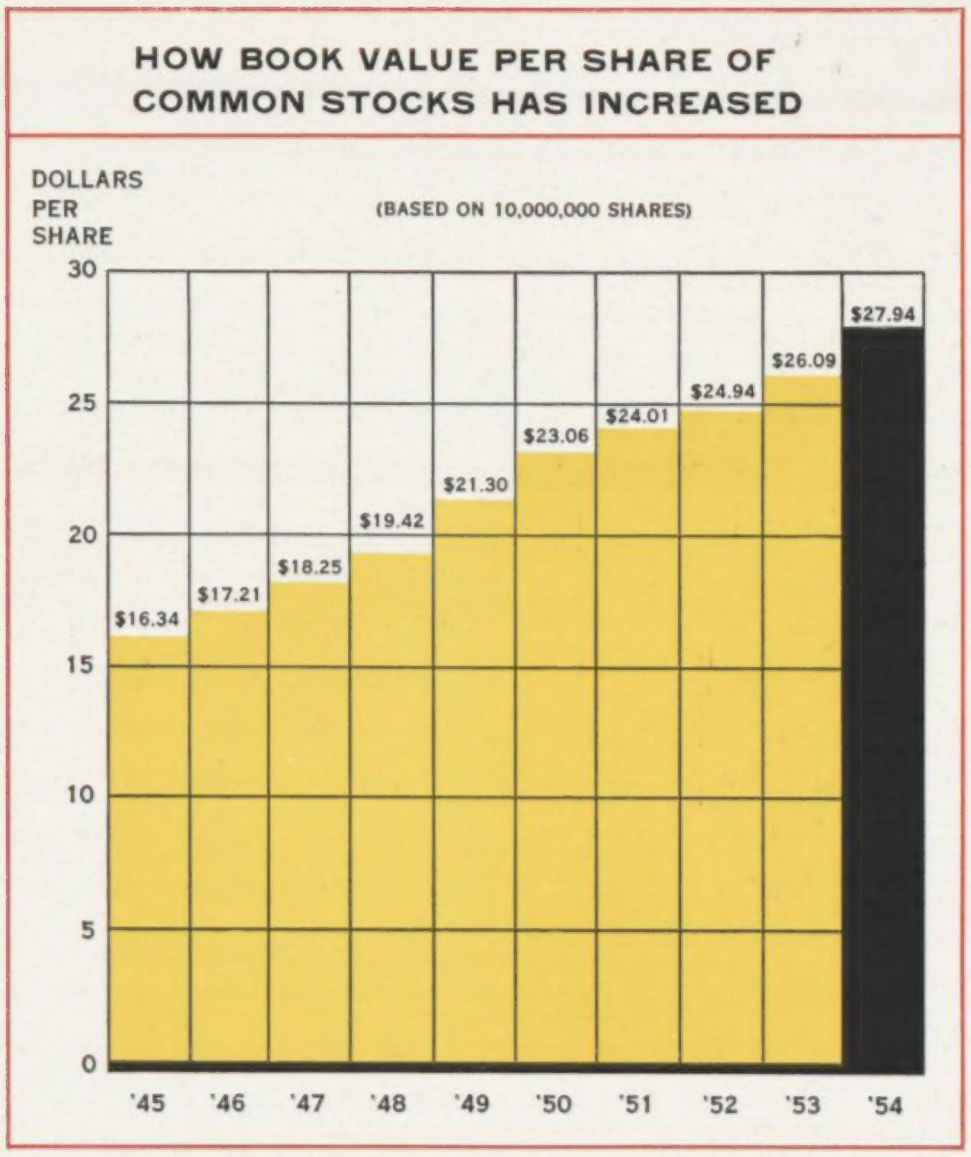
Employees

The achievements of the Company have been made possible through the high calibre of its many employees and their efficiency, interest, loyalty and cooperation. In 1954 many production problems had to be overcome and in every instance the employees concerned responded with outstanding accomplishments.

At the close of the year, there were 11,540 regular and 3,917 seasonal employees. Of the regular employees, 6,883 had been with the Company for 10 or more years, 4,789 for 20 or more years, 1,387 for 30 or more years and 183 for 40 or more years.

Last year marked the twenty-fifth anniversary of the Company's Group Life Insurance, Total and Permanent Disability Insurance, and Accident and Health Insurance Plan and the original Retirement Plan for employees. In providing such benefits, the

Leaf tobacco arriving at one of the Company's redrying plants. This plant is located near Greensboro, N. C.



Company was a pioneer in its industry as well as in the section of the country where its plants are located. Since then the Company's benefit program has been expanded to include the Hospital and Surgical Service Plan, Family Group Life Insurance Plan, Vacation Plans and Jury Service Plan.

In 1954 the Company put into effect its Suggestion Plan under which eligible employees receive monetary awards for suggestions submitted by them and adopted by the Company. The plan has had gratifying results and by the end of the year 2,477 suggestions had been submitted. By and large the employees eligible under the Suggestion Plan are those below the supervisory level. For employees not eligible under that plan, other than Directors, the Company has its Distinguished Service Award Plan which provides for non-monetary recognition for such employees who make outstanding contributions to the welfare of the Company.

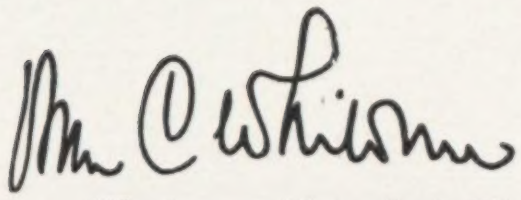
Stockholders

The number of stockholders reached a new high in 1954. At the close of the year, there were 74,173 holders of record, an increase of 5,746 for the year. Holders included 63,920 having common stocks and 10,253 holding Preferred Stock.

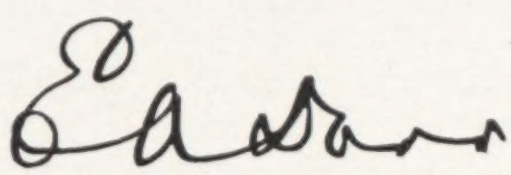
At December 31, 1954, the Company's net worth was $352,763,397. The equity of owners of common stocks was $279,385,897, equivalent on the basis of 10,000,000 shares to $27.94 a share, an increase of $1.85 a share for the year.

For the entire organization, we express appreciation to the owners of the Company's shares for their continuing confidence, interest and helpfulness.

Respectfully submitted for the Board of Directors,



Chairman Board of Directors



President

January 22, 1955.

WINSTON Filter-Tip Cigarette

Our Newest Product

After a period of over two years of intensive research, WINSTON Filter-Tip Cigarettes were introduced late in March, 1954. In the few months that WINSTONS have been on the market, they have achieved a sales volume that is greater, we believe, than has ever before been reached by any new cigarette in such a short period.

At the time the research was begun, the demand for filter-tip cigarettes was not great. Nevertheless, the research was commenced so the Company could be in position to enter the field with a superior product in the event that the demand became substantial.

When the research as to the most suitable blend of tobacco and type of filter had been concluded, plans for production had to be perfected. These involved obtaining the requisite quantities of aged tobaccos to be used, procuring and installing the

First shipments of Winston Filter-Tip Cigarettes leave factory by rail and truck.

special types of machines required, training employees, and making arrangements for the purchase of the filter, tipping and packaging materials and other things required for production.

WINSTONS were first marketed in the New England area and then gradually, as production was increased, the territory was expanded until late in September the entire United States had been included. Because of the great popularity of the cigarette and the inability of machinery manufacturers to supply promptly the increased number of special machines required, the introductory period was somewhat longer than had been originally anticipated. In order to manufacture the maximum number of WINSTONS, it was necessary to maintain production three shifts a day, six days a week, until late in the year, when sufficient machines had been installed to permit production on more normal schedule.

The successful launching of a new brand such as WINSTONS necessitates a well conceived and executed merchandising and advertising program. During the introductory campaign in each territory, local newspaper, television and radio advertising was used. At points of sale, unique three dimensional and mobile display signs were placed. The advertising emphasized "Finer Filter"—"Finer Flavor"—"King Size". When national distribution had been substantially achieved, the advertising was extended to media covering the entire United States. These included magazines, a television network show and announcements on other of the Company's television programs.

Because of heavy expenses involved in the introduction of any new tobacco product and the time generally required to develop volume of sales, it is rare for any such new product to result in profitable operations for the first year or so. WINSTONS' popularity was so quickly achieved that the brand resulted in profits within the first year.

Products

CAMEL,

CAVALIER AND

WINSTON

CIGARETTES

Smoking Tobacco

Principal Brands of Chewing Tobacco

The Famous CAMEL Smoke-Ring Sign—This spectacular sign in its thirteen-year history has become a landmark in Times Square, New York City, where it is seen by more than a million people a day.

Typical of many thousands of retail counters throughout the country is this display featuring the Company's products.

Advertising

The advertising of the Company is designed to carry its sales messages to persons in all parts of the country and in all walks of life. Because of the vast consuming public that must be reached, a broad advertising program is required. While substantial expenditures are involved, experience has shown that they are more than justified.

Placing WINSTONS on the market, in addition to promoting our two other cigarette brands, necessitated changes in the over-all advertising program to assure proper advertising support for each brand.

The basic idea behind our advertising budgeting is to buy the widest possible circulation of selling messages at the lowest possible cost. This goal determines the selection of the various media to be used – television, magazines, newspapers, radio, outdoor and point-of-sale advertising.

In selecting the selling messages, both consumer research and experienced judgment are brought to bear in developing for each brand the advertising themes which will result in maximum sales.

The exciting new Bob Cummings Show for WINSTON Filter-Tip Cigarettes entertains millions on Sunday nights, NBC-TV.

Anne Jeffreys, Bob Sterling and their Saint Bernard entertain Leo Carroll and approximately 21 million television viewers in "*Topper*" for CAMELS on alternate Friday nights, CBS-TV.

John Cameron Swayze, top-rated newscaster, brings "*Today's News Today*", on the "CAMEL *News Caravan*", NBC-TV.

"*Grand Ole Opry*", America's top folk music program, goes into its sixteenth year of winning friends for PRINCE ALBERT on NBC radio.

The "CAMEL *Clubhouse*" television show in New York City features Red Barber, famous sportscaster, during the baseball season.

Fun and selling are combined on CAVALIER's "*I've Got a Secret*" Panel Show, sparked by master salesman Garry Moore, and seen by an estimated 23 million viewers each Wednesday night, CBS-TV.

Vice President Kirk presents an award for a suggestion that resulted in reduced manufacturing cost for PRINCE ALBERT containers.

A group of employees studying fundamentals of the American business system.

Personnel

High morale and efficiency are characteristic of the people of R. J. Reynolds Tobacco Company. These qualities reflect the policies of (1) careful selection of personnel, (2) skilled supervision, (3) genuine interest of management in each employee's well-being, (4) a broad program of benefit plans and (5) encouragement of active participation in the affairs of the Company by employees at all levels.

Two new features were added to the comprehensive personnel program in 1954. A course was made available for all supervisory and clerical personnel on the subject, "How Our Business System Operates". Meeting in discussion groups of twenty, the participants are given an opportunity to acquire a new understanding of economics and particularly how the American business system has produced the highest standard of living in the world.

To encourage the origination and development of useful ideas by employees, the Employee Suggestion Plan was established. A steady stream of suggestions for bettering operations of the Company has resulted. Many of the suggestions have brought about material economy in operational costs.

Cooperation on the part of employees is expressed in many ways. In the field of safety, for instance, an exceptional record has been established. The latest available figures show that the plants of the Company are four times safer than the average plant in the tobacco industry and eight times safer than the average manufacturing plant in all industries. Last August the metal can department completed ten years – more than a million man-hours—without a single lost-time accident.

The attitudes of loyalty and helpfulness displayed by the employees are not confined to themselves and their Company but extend to the whole community as well. Last year the Company's personnel received national recognition for having the highest percentage of contributors to community funds in 1953 among companies with more than 10,000 employees. In this past autumn's United Fund campaign our employees bettered their own previous record, with 99.5% contributing.

Throughout the Company's plants and offices is displayed a motto which has become a tradition among the employees. It reads: *We believe in Ourselves and in our Fellow Workers – We believe in Our Company and its Products – Their Good Name is Our Good Name.*

5 YEAR RECORD

CONDENSED COMPARATIVE FINANCIAL DATA

	YEAR ENDED DECEMBER 31				
	1954	1953	1952	1951	1950
SALES, EARNINGS AND DIVIDENDS (amounts in thousands of dollars)					
Net Sales	$814,274	$876,189	$881,424	$814,217	$759,856
Income before taxes	103,343	102,873	95,514	92,177	77,979
Federal and state taxes on income	58,516	68,701	63,565	60,060	37,721
Net Earnings	44,827	34,172	31,949	32,117	40,258
Dividends on Preferred Stock	2,894	2,934	2,934	2,934	2,934
Dividends on common stocks	23,732	19,756	19,723	19,715	19,714
FINANCIAL POSITION AND EQUITIES (amounts in thousands of dollars)					
Current Assets	$574,025	$558,394	$553,200	$540,646	$518,122
Federal and state tax liabilities	62,279	71,513	65,237	60,594	38,146
Other current liabilities	82,593	66,189	71,979	67,158	70,185
Working Capital	429,153	420,692	415,984	412,894	409,791
Real Estate, Machinery and Equipment—net	40,259	36,395	34,551	32,751	31,611
Total Assets	617,636	598,609	591,641	577,886	553,997
Funded Debt	120,000	125,000	130,000	135,000	140,000
Equity of holders of Preferred Stock	73,377	75,000	75,000	75,000	75,000
Equity of holders of common stocks	279,386	260,907	249,425	240,133	230,666
FINANCIAL STATISTICS					
Income taxes per share of common stocks*	$ 5.85	$ 6.87	$ 6.35	$ 6.00	$ 3.77
Earnings per share on common stocks*	4.19	3.12	2.90	2.92	3.73
Dividends per share on common stocks	2.40	2.00	2.00	2.00	2.00
Book value per share of common stocks*	27.94	26.09	24.94	24.01	23.06

*Based on 10,000,000 shares.

R. J. REYNOLDS TOBACCO COMPANY

Financial Position

ASSETS

	1954	1953
CURRENT ASSETS:		
Cash	$ 23,562,202	$ 23,299,408
Accounts receivable (net) for merchandise sold	26,909,345	23,828,877
Leaf tobacco, supplies, manufactured products, etc.— at average cost	523,553,988	511,265,677
TOTAL CURRENT ASSETS	574,025,535	558,393,962
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	68,338,682	61,931,819
Less depreciation, obsolescence, etc.	28,079,095	25,537,015
NET REAL ESTATE, MACHINERY AND EQUIPMENT	40,259,587	36,394,804
OTHER ASSETS:		
Investments in non-competitive companies	225,000	25,000
Sundry receivables and deposits	1,497,715	1,595,950
Brands, trade-marks and good will	1	1
Prepaid expenses and deferred charges	1,628,039	2,199,722
TOTAL OTHER ASSETS	3,350,755	3,820,673
	$617,635,877	$598,609,439

December 31, 1954 with Comparative Figures for 1953

LIABILITIES	1954	1953
CURRENT LIABILITIES:		
Accounts payable	$ 5,510,466	$ 5,735,935
Notes payable	69,000,000	52,500,000
Funded debt due within one year	5,000,000	5,000,000
Federal and state taxes (accrued and contingent)	62,279,308	71,512,983
Sundry accrued accounts	3,082,706	2,953,039
TOTAL CURRENT LIABILITIES	144,872,480	137,701,957
FUNDED DEBT (Note A):		
2½% Promissory Notes	66,000,000	70,000,000
3% Debentures, due 1973	54,000,000	55,000,000
TOTAL FUNDED DEBT	120,000,000	125,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock–Par $100		
Authorized and issued 750,000 shares		
3.60% Series	49,000,000	49,000,000
4.50% Series	26,000,000	26,000,000
Common Stock–Par $10		
Authorized and issued,		
1954–444,478 shares	4,444,780	
1953–456,253 shares		4,562,530
New Class B Common Stock–Par $10 (Note B)		
Authorized 15,000,000 shares		
Issued, 1954–9,555,522 shares	95,555,220	
Issued, 1953–9,543,747 shares		95,437,470
	175,000,000	175,000,000
Earnings Retained for requirements of the business (Note C)	179,108,009	160,907,482
	354,108,009	335,907,482
Less cost of 16,225 shares of Preferred Stock, 3.60% Series, in Treasury	1,344,612	–
TOTAL CAPITAL AND EARNINGS RETAINED	352,763,397	335,907,482
	$617,635,877	$598,609,439

R. J. REYNOLDS TOBACCO COMPANY

Statement of Earnings

YEAR ENDED DECEMBER 31, 1954—with Comparative Figures for 1953

	1954	1953
NET SALES	$814,273,776	$876,189,581
OTHER INCOME:		
Interest, dividends and sundry	2,383	31,728
TOTAL INCOME	814,276,159	876,221,309
LESS:		
Cost of goods sold and other charges including selling and general expenses, but exclusive of items below	701,647,096	764,723,044
Provision for depreciation and obsolescence	3,411,950	2,679,592
Interest and debt expense	4,685,912	4,878,897
Provision for participation in profits under Article XII of By-Laws payable to 1,528 officers and employees for 1954 and 1,577 for 1953	1,187,899	1,066,440
Provision for Federal and state taxes on income (including in 1954 $1,800,000 contingent liability for prior years)	58,516,509	68,701,292
TOTAL INCOME DEDUCTIONS	769,449,366	842,049,265
NET EARNINGS FOR YEAR	$ 44,826,793	$ 34,172,044
Dividends paid on Preferred Stock	$ 2,894,413	$ 2,934,000
NET EARNINGS APPLICABLE TO COMMON STOCKS	$ 41,932,380	$ 31,238,044

Statement of Earnings Retained

YEAR ENDED DECEMBER 31, 1954—with Comparative Figures for 1953

	1954	1953
EARNINGS RETAINED for requirements of the business—at beginning of year	$160,907,482	$149,425,673
ADD:		
Net Earnings for year	44,826,793	34,172,044
	205,734,275	183,597,717
DEDUCT:		
Cash dividends—		
Preferred Stock		
3.60% Series	1,724,413	1,764,000
4.50% Series	1,170,000	1,170,000
Common stocks at $2.40 per share for 1954 ($2.00 per share for 1953)	23,731,853	19,756,235
	26,626,266	22,690,235
EARNINGS RETAINED for requirements of the business—at end of year (Note C)	$179,108,009	$160,907,482

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1954

NOTE A: The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1955-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

NOTE B: Of the authorized but unissued shares of New Class B Common Stock, 444,478 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,555,522 shares of issued New Class B Common Stock, 111,119½ shares are held for exchange pursuant to said Exchange Option to holders of Common Stock.

NOTE C: The 2½% Promissory Notes and the Indenture under which the 3% Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the common stocks of the Company and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1954, the part of Earnings Retained not affected by these restrictions was $129,756,128.

Report of Independent

Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1954, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1954, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants

Winston-Salem, N. C.
January 21, 1955

R. J. R.

R. J. REYNOLDS TOBACCO COMPANY

Board of Directors

JOHN C. WHITAKER	*Chairman Board of Directors*
R. C. HABERKERN	*Chairman Executive Committee*
E. A. DARR	*President*
H. N. HARDY	*Vice President*
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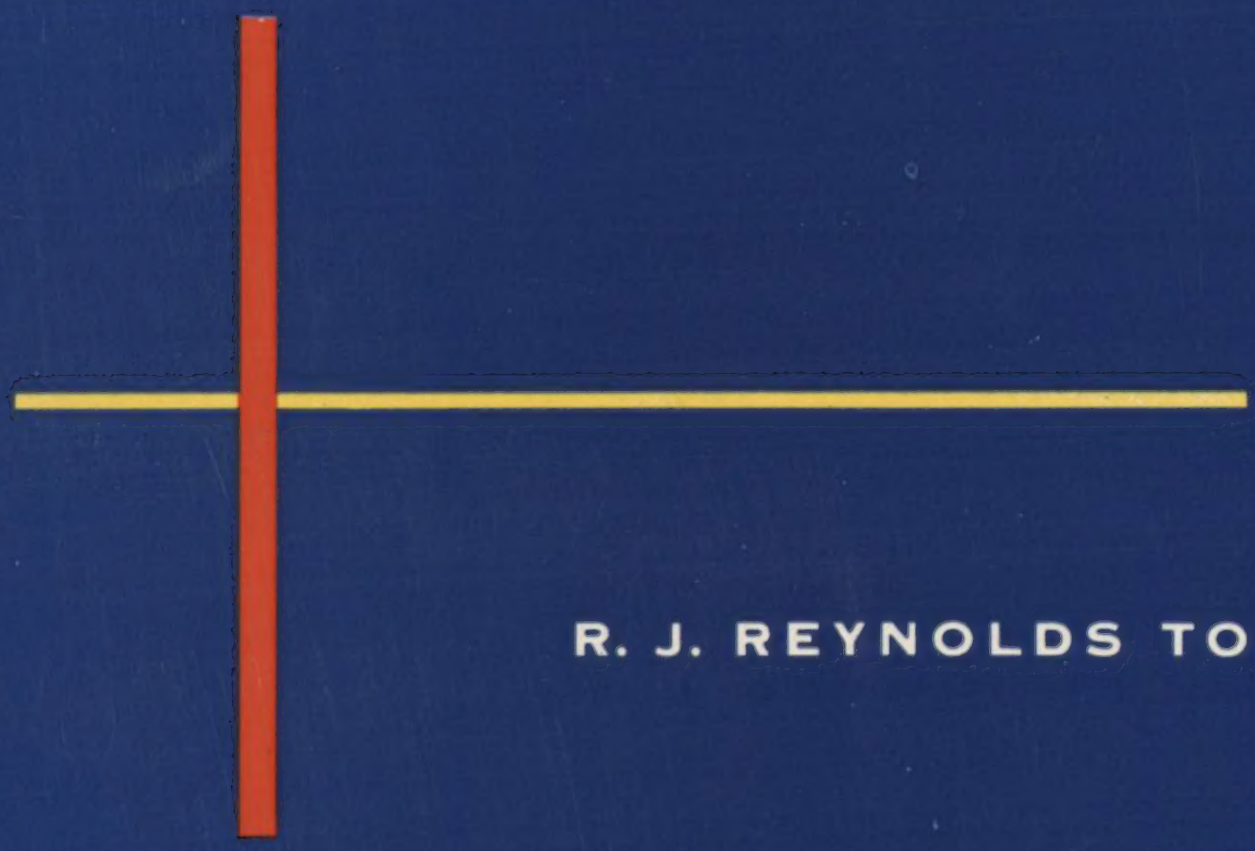

R. J. REYNOLDS TOBACCO COMPANY